

Working Paper No. 11/2017 | June 2017

# Trade in Services and Development: The Case of Perception in Chile

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Trade in services and its positive relation with countries' development has been a consideration in the design of public policies. In particular, since the return of democracy, it has been pointed out by Chilean authorities the intention to improve services exports to add value and diversify its basket. Since the first decade of the 2000 the State has implemented a series of programs and strategies directed to achieve these objectives. However, the matrix remains anchored in natural resources, particularly copper. Although trade in services has increased, it has not done so as expected. In order to understand the reasons why public policies intend to promote the service sector have failed achieving their objective, this work has interviewed experts from the public, private and academic sector, international organizations and NGOs to collect their perception on policies to promote services exports implemented in the period 1990 – 2014. For a better understanding of the results, three overlapping levels are distinguished, in a logical hierarchy from greater to lesser extent: Level I: Considerations on economic doctrines and corporate cultures. Level II: Considerations on the specificity of service industry and economic considerations. Level III: Considerations on specific policies and instruments. Some conclusions and recommendations are presented at the end.

Research for this paper was funded by the Swiss State Secretariat for Economic Affairs under the SECO / WTI Academic Cooperation Project, based at the World Trade Institute of the University of Bern, Switzerland. SECO working papers are preliminary documents posted on the WTI website ([www.wti.org](http://www.wti.org)) and widely circulated to stimulate discussion and critical comment. These papers have not been formally edited. Citations should refer to a "SECO / WTI Academic Cooperation Project" paper with appropriate reference made to the author(s).

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# TRADE IN SERVICES AND DEVELOPMENT: THE CASE OF PERCEPTION IN CHILE

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## Abstract

Trade in services and its positive relation with countries' development has been a consideration in the design of public policies. In particular, since the return of democracy, it has been pointed out by Chilean authorities the intention to improve services exports to add value and diversify its basket. Since the first decade of the 2000 the State has implemented a series of programs and strategies directed to achieve these objectives. However, the matrix remains anchored in natural resources, particularly copper. Although trade in services has increased, it has not done so as expected. In order to understand the reasons why public policies intend to promote the service sector have failed achieving their objective, this work has interviewed experts from the public, private and academic sector, international organizations and NGOs to collect their perception on policies to promote services exports implemented in the period 1990 – 2014. For a better understanding of the results, three overlapping levels are distinguished, in a logical hierarchy from greater to lesser extent: Level I: Considerations on economic doctrines and corporate cultures. Level II: Considerations on the specificity of service industry and economic considerations. Level III: Considerations on specific policies and instruments. Some conclusions and recommendations are presented at the end.

## Key words

Services export - export promotion - Chile - diversification - development - trade and value added

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## INTRODUCTION

Chile is a country renowned for its trade openness and high economic integration to the world. It is also very well studied case for its substantial reliance on copper and other natural resources exports. This has been a key issue for the different governments, no matter the ruling political party, for which they had establish various strategies and policies to transform the export and productive matrices into services. With the consideration that services could be one way to reach a higher degree of development.

The effects of exports over economic development are closely related to their value-added content. This means that products with superior quality and more innovation incorporated will have better results in economies. Those countries that have managed to diversify and add value have done so through programs that contains public policies; this is, with State intervention.

The importance of the services sector in economic development has increased in the last decades, with a progressive strengthening of its weight in economic activity and employment generation. There is increasing evidence that the activities with the highest added value are those that allow more development and services, according to the World Trade Organization (WTO), generate two-thirds of the globally value added. The increasing integration of markets and the emergence of new tradable services, as a result of technological changes and new forms of production, have led countries to identify more complex services as a way to develop and diversify their productive and export baskets.

Meanwhile, the composition of Chilean exports remains anchored on the exploitation of natural resources with low added value. This concentration has been a concern in all administrations since the return to democracy. The presidential speeches of the first governments, which reaffirmed the strategy of openness, aimed at reorienting it towards an improvement in the quality of exports and it was not until the first government of President Bachelet (2006-2010) when it was recognized the need for industrial policies, and the improvement of the productive structure and export to achieve development and overcome the inequity problem.

There is consensus in the academic, public and private worlds that the diversification of the export basket, especially oriented to qualified services, is essential, both to reach the goals or expectations of national development, and to achieve the consequent improvement in the living conditions that such development would enable. In this sense, the role of the State through the implementation of general strategies of economic development is fundamental and has been so in those countries that have reached higher levels of development. Despite of the above, in Chile the results obtained account for an insufficiency or poor quality of public policies implemented.

The article focuses on carrying out, together with the literature review, a series of interviews, to identify the ideological and academic discussions that exist in relation to the convenience of the State intervention for the economic development or, on the contrary, the limits that it is considered to have. In other words, the arguments those defends or refuse to have a State that acts by prioritizing or promoting the export of services.

In Chile some export promotion policies have been implemented in a punctual way however the real situation is that the matrixes are still highly primary concentrated. Exports of services have grown but not in the expected and necessary amount to modify the Chilean situation. The objective of this article is to capture the perception of key actors in the public, academic and private sectors regarding their opinion of the results of the different attempts to increase services exports and create a solid new export sector in the period 1990 - 2014. Understand the tension between the manifested intention of diversifying the economy and the persistence of an export basket primarily based.

The interviews were conducted to key informants form public, academic and private sectors, including international organizations and non-governmental organization. The selection used as main criteria the relation between the interviewed and the services sector. The sample is biased to public sector mainly to Ministries of Foreign Affairs and Treasury.

In the first section we will review the literature that sustains the positive relation between trade in services and development. In the second, the different programs implemented in Chile will be mentioned. Then the results of the interviews will be presented and finally some conclusions.

## **TRADE IN SERVICES AND DEVELOPMENT**

Trade in services and development is still a difficult to probe causal relation, the absence of a strong theoretical corpus is compensated with a high degree of agreement and empirical evidence that value added by some services in exports boost growth which is a precondition for development (Adlung, 2007; Coll-Hurtado & Córdoba y Ordóñez, 2006; Mattoo, Rathindran, & Subramanian, 2006; UNCTAD, 2010b, 2016; World Bank, 2010). Theory accords no special role to services activities in growth, with the exception of financial services (Hoekman & Mattoo, 2008a; King & Levine, 1993). There are some stylized facts that support this positive relation like that develop countries services export participation is higher than those of developing countries; and that countries have shown to be more resilient to crisis when they are services oriented.

This absence of theory is also reflected in the insufficient empirical research on how trade in services are relevant for an economy and which policies support the emergence of dynamic and efficient tradable services sectors (Hoekman, 2017). It is more common to find literature about the role of services as the backbone of an economy and the role they have to overcome poverty (Barngrover, 1963; Eschenbach & Hoekman, 2006;

Hoekman & Mattoo, 2008b; Riddle, 1986). CEPAL (2012) explained the consistency of studies correlating countries' income level with the preponderance of the service sector in the economy. Services are identified as the pillar of growth while open services markets have become the underpinning for global growth (Kenneth, 2006; UNCTAD, 2010a).

Trade in services matter for growth and development in different ways. Trade liberalization is a fundamental channel for improving services performance (Borchert, Gootiiz, Grover, & Mattoo, 2015; Cali, 2008). With the increasing tradability of services due to the technological changes allowing more services to be traded cross-border more research has been develop (Hoekman, Mattoo, & Sapir, 2007; Mattoo & Payton, 2007; Mattoo & Sauvé, 2003). According to WTO (2010), the benefits of trade liberalization could be divided in a domestic and an international dimension. The first one is that liberalization improves the domestic services market, attract investment, which enhances services, and increase competition, which theoretically improves innovation. Nevertheless, these results depend on how liberalization is executed. The international dimension states that having a better domestic services market increase the probability of export both services and manufactures. Robinson, Wang, and Martin (2002) considered that service sector trade liberalization not only directly affects world service production and trade, but also have significant implications for other sectors. Konan and Maskus (2006) determine that services liberalization increase economic activity in all sectors, raise the real returns of capital and labour and generate large welfare gains.

The more conclusive studies are those for financial services. For example Francois and Schuknecht (1999) in a cross country growth regressions found a high correlation between financial sector openness and the increase in sector competition, and then a relationship between growth and financial sector competition. Hoekman and Mattoo (2008b) explore the role of services in economic growth, focusing in particular on channels through which openness to trade in services may increase productivity. They mainly conclude that financial services can affect growth through enhanced capital accumulation or technical innovation. They also conclude that low cost and high quality telecommunications will generate benefits. Francois, Van Meijl, and Van Tongeren (2005) established that opening foreign bank entry does improve access to financial services, improve banking sector efficiency and promote economic growth directly and indirectly.

Literature also deals with the effect of openness in services on economic growth for countries at different stages of economic development (Bhagwati, 1984a, 1984b; Wölfl, 2005). Francois and Reinert (1996) point out that value added originating in services is positively linked to the level of per capita income. Regarding developing countries, Cattaneo (2010) in an individual analysis for different sectors found the positive effect between trade in services and develop. A. López, Niembro, and Ramos (2012) analyse the insertion possibilities of Latin-American countries and the advantages form opening. El Khoury and Savvides (2006) measure the influence of services liberalization in developing countries and found a relationship between

openness in telecommunication services and growth for countries with income per capita below an endogenously determined threshold level and no evidence of a significant relationship for countries above it.

There is an increasing amount of literature that measures trade in services impact on growth subject to the pattern of comparative advantage in producing manufactures and services (Hogan, Keesing, Singer, & Mundial, 1991). Hogan et al. (1991) have empirically studied the relations of trade or trade in services liberalization and their effect in manufacturing. Deardorff (2001) points out that trade liberalization in services can yield benefits, by facilitating trade in goods that are larger than one might expect from analysis of the services trade alone, and can also stimulate fragmentation of production of both goods and services. Arnold, Javorcik, and Mattoo (2006) conclude that services policy matters for manufacturing performance and that there is a strong correlation between services sector reform and productivity of local producers relying on services as intermediate inputs. Deardorff and Stern (2008) explained that opening services sectors to foreign providers is a fundamental channel through which services reforms affect downstream productivity in manufacturing.

The positive effects in labour force services have and the effect over development is another relevant route of research (Bosworth & Triplett, 2004; Browning & Singelmann, 1978; Eichengreen & Gupta, 2011b; Hansda, 2001; Riddle, 1986). Services is one of the most important labour force origin and will be each day more relevantly in the global value chains (Miroudot & Shepherd, 2016; UNCTAD, 2016). The low mechanization of services is one of the reasons of the increasing labour force in this sector (Soubotina, 2004).

Some country's cases are emblematic for understanding the links between services and development as India (Banga, 2005; Eichengreen & Gupta, 2011a; Hansda, 2001; Singh, 2006), United States (Alejandro et al., 2010; Bosworth & Triplett, 2004), Singapore (Anwar & Sam, 2008; Yue, 2005), amongst others. Empirical literature mainly those of the cases of south Asia have given a turn to Latin American research, mainly because we were some decades ago in very similar conditions of non-diversified export baskets and most of Asian countries reverted this situation which is not the regions actuality (Arriagada, 2007; Coll-Hurtado & Córdoba y Ordóñez, 2006; A. López et al., 2012; A. López, Ramos, & Torre, 2009; Luna, 1989; F. Prieto, 2004; F. Prieto, Sáez, & Goswami, 2011).

Trade in services and its liberalization matters for growth, a requirement for development. This positive relation is dependent on how the implementation of opening markets is performed and also the benefits are in direct association with the level of development of each country. Trade openness improves the domestic services sectors and its possibilities of increasing exports. That also has a positive effect over manufactures and improves labour. Trade in services is a key issue in the global value chain (GVC) structures and in adding value to exports, which are the real challenges for the region of Latin America, a region with highly concentrated export and production baskets. Telecommunications and transport particularly are identified as

essential element of the GVC that have increased in the last years. The liberalization of these services is to open new trade opportunities for all the world firms to improve the world development.

The next questions that we try to deal with is how we can improve the trade on services, and which is the new role of the State in promoting services in Latin America, mainly the case of Chile. This in a context of more competitiveness of participation in GVC, where the process of relocation and fragmentation of production of goods has moved to services and global offshoring in recent years has had significant growth (Direcon, 2015; Muñoz et al., 2014).

## **SERVICES EXPORT PROMOTION POLICIES**

Policies and institutions, and their interaction, may explain in some aspects the dissimilarities in countries' services sector performance. There is an increasing literature analysing the role of export promotion policies and services trade development (Cali, Ellis, & Williem, 2008; Mattoo & Payton, 2007; OCDE, 2005; World Bank, 2010). The existence of a positive relation has a diverse degree of consensus with a high agreement that some kind of promotion policies are needed to boost or to create trade services exports in different sectors. As A. López et al. (2012) argue, public policies play a fundamental role at the moment when a country wants to attract investments and export services.

During the second half of the XX century exports promotion emerged as a fundamental element in any economic development strategy. Nowadays, most of the States have export promotion institutions (EPI) working against the market failures and supporting economic insertion of their countries (Lederman, Olarreaga, & Payton, 2009; Seringhaus & Botschen, 1991). There are less studies regarding services export promotion policies, and particularly in Latin-American countries compared to those on goods (Cali et al., 2008; F. Prieto, 2003).

The non-traditional exports promotion emerges as a particularly appropriate field for trade selective policies. Without an active promotion in these sectors exports tend to be concentrated in few firms and in products with less dynamic demand. A central idea is that export promotion policies require not just liberalization or macroeconomic stability; they should be directed to exporters to help them to overcome the sectorial barriers and to have a fast reaction to price or other signals (Agosin & Basch, 1997). The capacity to export services is determined by the interplay of endowments, institutions and infrastructure.

Regarding trade in services a series of arguments could be acknowledged to justify the State interventions additionally to those identified for goods. First, owing to the nature of services, they are characterized by elements of natural monopoly, high barriers to entry and asymmetries of information. Second, they are subject not to easily identified tariffs, they are subject to regulations, norms and laws from other States. In third place,

the higher complexity in selling intangibles implies also more difficult for exporters in getting to other markets. As we see the multimodality of transactions a characteristic of services creates different and more barriers to trade, than those in goods.

To have a strategy in services demands to link institutions and instruments with the design of scenarios of short and long term that allows creating competitive advantages more than use the existing ones (Cali et al., 2008; F. Prieto, 1991) states that these policies should: a) create a level playing field and enable competition between market players; b) warranty the quality of the services provided; c) protect consumers and guaranty transparency; d) protect the environment; and e) guaranty access to services.

There are some barriers to services exports that governments must overcome: a) services are not goods, most of the knowledge in how to improve export sectors has been develop to goods, many times the problem is that policy makers just try to replicate these strategies in services (Francois & Hoekman, 2010); b) the absence of an international agreed definition is a recurrent problem and the absence of trustable statics does not help to design these policies (D. López & Muñoz, 2016); c) the unknown aspect of barriers, in services barriers are more difficult to identify; there are no tariffs as in goods, there are domestic regulations, norms, etc. (Hoekman & Mattoo, 2008b). Recently there has been developed a services restrictions index that could be very useful (*Service Trade Restrictions Index* - STRI); d) identify those export potential sectors, how to get to services producers that need support to export, and not to aim to less sectors or with low association levels (F. Prieto, 2000). Finally, the dynamic changing nature of the sector and its necessities, are increasingly, more complex than they were ten years ago.

The most common trade in services promotion instruments used had been: Trade openness and trade agreements; Support to market exploration and commercial intelligence; Information spreading; Improving capabilities; Cluster; Associativity; Subsidies; Tax and regulatory support; Mechanism of finance; Exchange rate policies; and Policies for investment attraction. The export promotion State entities are essential for the insertion of a country in global value chains GVC and in adding value to its exports through services. Services have characteristics that made them more susceptible for this kind of support. Latin American still has a lot of space to become a services exports region. Chile has explained his intention to become an important services export economy. ProChile is the main export promotion agency and has a services department; also CORFO is directed to services, in the next section this and the different instruments will be revised.

## **CHILEAN STRATEGIES FOR TRADE ON SERVICES PROMOTION**

One of the main problems in Chile regarding diversification is the unsolved discussion between selectivity and neutrality of economic policy. This is also a common disagreement in academic literature. For some authors, intervention in certain sectors in developing countries is absolutely justified due to information and



coordination problems (Volpe, Carballo, & Gallo, 2011). Countries also have to choose between promotion policies due to budget limitations. Most of Chilean economic policies have followed a neutrality approach, despite its high dependency on natural resources exports, and that since more than 30 years ago the political discourse claims that we have to diversify, identifying services as a way for achieving this objective.

On an institutional basis, trade in services promotion has been based mainly in two Ministries: Foreign Affairs and Economy. At the Ministry of Foreign Affairs, first DIRECON (*Dirección General de Relaciones Económicas Internacionales*) created in 1979, which is responsible for international economic relations and trade negotiation has a specialized department on services, investment and transport. Second, ProChile, created in 1974, the export promotion agency that since 2004 has a services department. At the Ministry of Economics is CORFO (*Corporación de Fomento de la Producción*), established in 1939 with the objective to enhance national productive activity oriented to create industrial capacity. For many years concerned with traditional sectors, services appeared with the clusters Programme during the first President Bachelet government. In the last years, other institutions related to services have also started to get involved in facilitate trade in services. Particularly, at the Treasury Ministry, the customs service (*Servicio Nacional de Aduana*), the internal revenue service (*Servicios de Impuestos Internos*) and the foreign investment attraction office (before *Comité de Inversiones Extranjeras*, today *Agencia de Promoción de la Inversión Extranjera* or *InvestChile*,) have begun to get awareness of the importance of services exports.

Below we present the main policies implemented in Chile towards services promotion in the last years. We must take into consideration, as stated above, that for the most years, a neutrality approach was in place, leaving selective policies aside, until the implementation of the clusters program during the first Bachelet government.

### **Trade Openness**

In the context of a neutral economic policy, Chilean governments worked to set up the conditions for the development of all industries, including services, allowing them to compete both at the domestic and international markets. Therefore, trade openness becomes sort of the base of economic policy. As Chile is a small economy, opening and guaranteeing access to new markets was the main objective in the decades of 1990 and 2000.

Services become part of this strategies, particularly after their inclusion in the GATT's Uruguay Round, and the establishment of the WTO GATS in 1995. Chile placed horizontal limitations on commercial presence and movement of natural persons on its list. The specific commitments undertaken by Chile under the General Agreement on Trade in Services (GATS) cover 5 of the 12 service groups defined in the Sectorial Classification List of Services: business services, communications services, Financial services, tourism services and travel related services, and transport services. Chile only assumed commitments related to the

auxiliary services of air transport in the last item. As this was the first negotiation regarding services, commitments made by Chile are less than their actual openness, and it is possible to affirm that the country offers better entrance conditions than those consecrated in the lists.

The main advances made in services negotiations have been in Chilean preferential agreements. In 1996, after the failure of NAFTA because of the United States government's inability to obtain approval of a Fast Track by its congress, Chile opens itself to negotiate bilaterally with Canada in what would be the first Free Trade Agreement, and the first time services were included in a bilateral negotiation. After this agreement, the inclusion of the services in the work agendas at the time of starting each new negotiation becomes an important condition for Chile. In general, the service chapters contain commitments in three of the four modes of provision, as mode 3 is confined to specific chapters of foreign investment or bilateral agreements in these areas.

Out of the 26 Chile's trade agreements in force today (annex I), 18 contain provisions related to trade in services. Chile negotiated with the modality of positive list the chapters of services contained in the agreements with the European Union, with EFTA, Hong Kong, China and Mercosur. In the latter cases, the issue was dealt with in supplementary agreements. The rest of the agreements that include services (including the United States, Canada and Mexico) were negotiated following the negative list NAFTA model. According to estimates made in the WTO, through its preferential trade agreements Chile has commitments in more than 85% of the service sectors in mode 3 and more than 75% in mode 1 (Roy, 2011). Chile is also part of the ongoing TiSA negotiation, the trade in services agreement negotiated aside WTO. For Chile, this negotiation is important due to the participation of economies with which we do not have chapters of services in force; substantial improvements in offers from partners with which we already have FTAs in force, such as the EU; agreement with new or improved disciplines and broad sector coverage, including matters of particular interest to Chile, such as temporary entry of service providers, professional services, electronic commerce and services related to air transportation; and due to Chile's will to play a leading role in the design of the rules that will govern world trade in services over the coming decades, as it is an agreement that aims to be multilateralized and involving economies that account for 70% of global trade in services, including important partners Chile, such as the US, the EU and 5 other Latin American countries (DIRECON, 2017).

In order to complement trade agreements markets access, Chile has also signed Investment Promotion and Protection Agreements (IPPAs, Annex II) and Double Taxation Agreements (DTAS, Annex III). IPPAs were signed as a way to attract FDI, by securing conditions and delivering legal certainty to foreign investors at a time when the country needed the inflow of capital. But the development of the national economy, and in particular of some economic sectors, has led Chile today to use these agreements as a way to protect its investments, particularly in other South American countries. Annex II presents a list of IPPAs subscribed by Chile that are in force at the date of this work. DTAs were signed with the aim of facilitating the establishment

of companies in the country and allowing national firms to set up branches and representations in third countries. The double taxation agreements are international legal instruments signed between two states, which are incorporated into the domestic legal system of each of them and whose purpose is to eliminate or reduce double international taxation that affects or hinders the exchange of goods and services and Capital movements, technologies and persons, benefiting exclusively the natural or legal persons resident or domiciled in one of the contracting States.

### Sectoral Brands

This program originates with the objective of supporting the Chilean productive sectors through the international positioning of sectorial brands, representative of national productive sectors and that contribute to the image of Chile abroad. According to E. Prieto (2013), the incorporation of Sectorial Brands into ProChile since 2011 has made it possible to order and strengthen state support for the internationalization of companies and productive sectors, by taking advantage of the institution's experience in promotional matters of exports, knowledge of the markets and its wide international network. This program is planned for one year and must be renewed annually. ProChile undertakes to co-finance up to 60% of annual activities with no ceiling. The idea is that when a sector "already has its sectorial brand, they can continue with the work done by postulating an implementation project, as it seeks to give continuity to existing brands, in order to consolidate brands in time, and not Lose the efforts and the initial investment made " (E. Prieto, 2013). Since the inception of the program, 19 sectoral brands have been created, based on both goods and services. The sectorial brands focused on the export of services include gastronomic, architecture, biotechnology, education, cinema, engineering, information technology, manufacturing; mining suppliers and tourism (annex III).

CORFO has different programs, not only oriented to services.<sup>4</sup> These programs are mainly directed to overcome financial problems, and the development of new industrial areas, amongst its programs that could be used by services providers, we may acknowledge:

- On competitive creation:
  - NODOS: export promotion platform;
  - FOCAL: quality improvement program;
  - PROFO: associative development program;
  - PDP: program for suppliers development;
  - PFC: a program for competitiveness capacitation;
- On innovation:
  - IFI: support projects on technological investment;
  - PDT: technological diffusion program;
  - CATAPULT(A): on technological innovation, business and validation;

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<sup>4</sup> A full description may be found in their web page [www.corfo.cl](http://www.corfo.cl).

- On entrepreneurs support:
  - Scale up; co-financing and support of dynamic business;
  - COBEX, trade coverage;
  - FOGAIN: investment and working capital guarantee;
  - PROINVESTMENT, on investment coverage.

Additionally, some tax exceptions for services had been implemented such as value added tax (VAT) exemption for those services supplied by foreigners not living in Chile that the Customs Service classifies as services exports, and to those received by tourism hotels in foreign currency. A stamps tax exemption is also considered for documents oriented to finance credit operations for exports (Law No 3475). Article 36 of the Decree Law No. 825 of 1974 provides that exporters are entitled to recover the VAT they have been charged when buying goods or using services for their export activity. They have the same right regarding the tax paid when importing goods for the same object. The recovery of VAT occurs, either by charging directly to the tax debts that originate from operations within the country, or by requesting its return. A series of measures to facilitate the reimbursement of value added tax and capital goods imports, through online platforms (SIF-M system) have been implemented.

#### Global services cluster

In 2006, at the beginning of Michelle Bachelet's presidential term, the National Innovation Council for Competitiveness (CNIC) defined the National Innovation Strategy for competitiveness, with a view to doubling GDP per capita by 2020. In the framework of this Strategy, and based on the diagnosis made by the international consulting firm Boston Consulting Group in 2007 and the recommendations arising from its "Cluster Competitiveness Study of the Chilean Economy", five clusters are defined by the sectors with the greatest potential for growth in the medium and Long term: food, mining, special interest tourism, aquaculture and offshoring (Boston Consulting Group, 2007). At the end of 2007, the clusters are implemented, through the formation of strategic councils, the election of executive secretaries and the elaboration of specific agendas. During 2011, under the administration of President Sebastián Piñera, CORFO defines non-selectivity as a management criterion and reformulates the cluster program, in order to support private sector initiatives in a neutral way. It is recognized that markets are dynamic and therefore public policies must adapt to the circumstances (CORFO, 2012).

In order to evaluate the results of the policies implemented towards the promotion of the services export industry, the following section presents the results of interviews conducted with key stakeholder, in order to analyse their perception regarding this topic.

## **RESULTS: KEY STAKEHOLDERS PERCEPTIONS**

This section presents the results of the research on why development-oriented policies in Chile's exporting services sector did not achieve the expected results. Through the identification of the reasons perceived by the key stakeholders related to services and promotion policy. They have a diagnosis of what happened during the process from their different spheres and participated in different ways in defining what was done or not. They were classified for reporting purposes according to their most relevant job in services. Three main categories were defined: public sector (A), private sector (B) and other stakeholders (C); due to confidentiality clauses, interviewees will be identified according to these categories. From the 49 interviews, 24 are from the public sector, 11 were ministers in different governments (Foreign Affairs, Treasury, Economy and Agriculture) or vice-presidents of CORFO or directors of ProChile; they will be identified for reporting purposes with an A1. Then, 13 are directors or department responsible from DIRECON, CORFO, Treasury Ministry, Customs and Agriculture, identified as A2. The second category, private sector, includes 6 actors from individual firms (B1) and 5 representatives from private associations or business chambers (B2). Finally, 14 belong to academy, NGOs and international organizations, they were identified C. The sample has a bias towards the public sector and mainly to the ministries of Foreign Affairs, Economy and Treasury. This was because the question sought to understand why more aggressive strategies were not designed, used or considered from different administrations, since there was a deep awareness that the lack of complexity in the country's export and production baskets was insufficient to achieve better jobs, greater equity and improve individuals' life quality.

In general, they start from the initial premise that confirms an absence of a state policy to promote services. They show consensus that there was no policy to promote the export of services, beyond specific initiatives, at least until the first government of President Bachelet. Likewise, they consider that the current productive export matrix - intensive in copper and agroindustry with low added value, and not in services - is the result of a lack of consistency, resources and will. In this direction, it can be said that another explanation of this insufficient development was the absence of many factors, mentioned in this section, and of such depth that it made it very difficult to try to achieve such an ambitious goal. In this way, the question operates as an analysing element of the vision of the economic development experts regarding the corporate, institutional and even cultural ideological supports of our society. More than talking about a failure, it is a clear awareness of the impossibility of meeting a goal such as that proposed for the services sector.

For a better understanding of the results, three overlapping levels are distinguished, in a logical hierarchy from greater to lesser extent:

Level I: Considerations on economic doctrines and corporate cultures.

Level II: Considerations on the specificity of service industry and economic considerations.

Level III: Considerations on specific policies and instruments.

Below, an in depth analysis of these levels is presented.

### **Level I: economic doctrines and corporate cultures**

On this level the first order determinants in our research have been grouped together and identified by the relevant actors, which are the economic doctrines adopted in Chile and its business groups. In all the interviews these first order elements present an important explanatory load.

The consensus answer was that there has been an absence of policies that could modify in a significant way the Chilean export structure into services. They acknowledged that at least until the first Bachelet government there were only punctual initiatives to promote services. Interviewees indicated that the latter is a consequence of the neoliberal model's high permeation into Chilean society. With the concept of subsidiary State deeply incrustated in all the governments. This implies the agreement on the non-State intervention in economic aspects. "The State subsidiarity was very clear, and it was fundamental to sustain it for the market well operation" (A1). The model generated an institutional and a thinking structure that defined the policy making in productive development. As one interviewee pointed out, "the model penetrated so much that it convinced policymakers that neutrality was best. It not only generated a political class, but companies also preferred this scheme of neutrality" (B2). Other acknowledged that "what the market cannot solve is difficult to think that an intervention could achieve, since in general it deepen the distortion" (A1). It is recognized that there has been a fear of using expressions such as 'industrial policy', not to mention 'planning'.

The principle of neutrality marked the policy of productive development in a definitive way, and economic textbooks indicated that the danger of choosing the winners outweighed the benefits of doing so, therefore the productive development policy to implement was to give the market the conditions to function as close to perfect competition. As one stakeholder mentioned "neoliberalism punctured any policy of incentive in any sector" (A2). There was a high agreement amongst them that neutrality was the approach that defined the approximation of the State to the productive sphere. In what they differed, and more like a posture in the light of results, is whether or not this position was correct. What was repeated is that the absence of strategy was indeed the strategy: "there was no national productive strategy, much less to look at services in a formal way" (C), or that, in fact, "there were more relevant priorities than to industrialize the country and less to support services" (B2).

Thus, the model becomes a kind of internal law due in large part to the desire for peace and governance present at a particular moment in recent history. That is, this model replied to a specific need for stability that would allow the peaceful democratic transition. One interviewee mentioned that "the rest of the region had emerged from dictatorships with severe problems of hyperinflation and economic disorder. We had to

demonstrate that we were capable of giving governance without a military government in command" (C). And while there were dissenting voices about how the model should be implemented, finally "we were attached to the neoliberal model, because we had to ensure governance, and for that, every economic strategy should be international" (A1). Some believed that the conditions for the model were determined by external and existing factors and that "the model implanted by the Chicago boys<sup>5</sup> would have arrived even without them" (C), or that "it was the model demanded by conditions prevailing in the country in the 70s and did not depend on the government on duty" (A1). The model, according to this view, "had worked and had damaged those companies or interests that could rebel against its imposition, so it was not very difficult to think that was the way to go" (C). That is, those who had already endured privatization, openness and change under the dictatorship were not going to oppose, and those who might have opposed had not resisted previous reforms.

The other problem with the model is that by eliminating any type of planning attempt and leaving everything to market forces, a problem was repeated in many countries of Latin America: a short-term vision in the government's action. As one of the stakeholders mentioned "the general view of the region is short-term. This was radicalized before the neoliberal model and is notorious, for example, in the change that Chile did modifying the presidential periods to four years. This makes impossible to achieve processes of greater magnitude" (A2). Another added that "the problem is that services, innovation or simply trying to add value necessarily imply a vision of investing now to collect later, and this is outside the type of society we have moulded" (C).

For some experts there has to be a shift towards a more active horizontal policy in the direction of selectivity: "not to return to industrial policy has to do with a fearful society, a conservative business and a State reduced to a minimum. Chileans stopped being entrepreneur and if it does not recover it, we will not develop" (C).

The other determinant of the first order refers to business community, entitled in this context to assume the complex initiative of organizing the production processes of exportable services. There is a conception that Chilean business class did not have the necessary characteristics to assume such responsibility. The existing entrepreneurial culture was restricted for reasons of cultural and historical class formation, in neo-rentier forms, by climate, latitude and even by geology. We have, what we can name, an elite that is different from the Asians; traditionally rentiers and landowners. The particular feature of Chile is that they are small elites, isolated and used to agree amongst them. In the case of the rentier element, "it would respond to the presence of factors associated with a society that lives off the exploitation of its natural resources and does not develop capitalism" (C). The military coup replaced these elites with transnational capital that did not obtain its gain from work or from the added value that labour produces, but from the income of the wealth of natural resources, from the land. Therefore, they did have not incentives to innovate and create wealth.

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<sup>5</sup> "Chicago boys" is the name used to refer to the economic team of the Pinochet regime, due to their academic preparation in the University of Chicago, US.

On the contrary, the development of an export services sector requires highly trained entrepreneurs in the logic of complex management of productive advantages not necessarily associated with natural factors. Some views that defended the model argued that "entrepreneurs are called rentiers only because they like to earn money. And if they do it by exploiting natural resources and nobody regulates or prohibits them, why should they make efforts in another direction?" (A1). In addition, they pointed out that "they are more committed towards work, because they do not profit from the State. Look what happened with import substitution model" (A1).

Meanwhile, from the institutions of the State responsible for the services sector they considered that to the extent of their restrictions, they have reacted permanently to the demands placed by the business sector. But, they pointed out that in services there is a serious problem in the ability of entrepreneurs to associate, because of their heterogeneity and size: "the government tells them to identify their necessities and they are not capable to get organized" (A1). The problem of associativity is very deep in this sector. From the point of view of one of the respondents: "in a demand response scheme, those who can export are very large or exceptions, such as the Sonda<sup>6</sup> case" (B1).

## **Level II: specificity of service industry and economic considerations**

In this level, we have identified considerations associated with the specificity of services sector, their conditions and how these are exacerbated due to some Chilean characteristics. Specifically, economic considerations are analysed as a result of the design of the economic model and the consequences it has had. The understanding of decision makers on important aspects of services sector and their potential was identified to be insufficient or null. It is possible to indicate that this unfamiliarity was explained as a consequence of the following aspects, developed below: i) the recent irruption of the services in the commercial world; ii) coexistence in a designed and structured world for goods; and iii) the difficulty of measuring them and the meagre efforts made in this direction.

The possibility of exporting services as part of a development strategy appears in the region relatively late. Moreover, according to one interviewee, Chile was quite "pioneer in considering them as a development option" (B2). Services comprehension intention came in the 1990s, while for "goods there was absolute clarity of what could be done" (B2). Another interviewee added that "in the 1990s there was only awareness that there are services and that they can be traded" (B1). Services trade promotion came very late. For example, in the framework of promotion policies: "ProChile just created a service department in 2004" (A1). And it was

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<sup>6</sup> Sonda is one of the biggest ICT Chilean companies, with presence in most of the Latin American markets.



established with "a low budget and at the request of a small group and due to the requirement of international commitments" (A2).

In contrast, there was an increasingly developed view that we cannot speak of a broad service sector and that individualizing them is essential: "services are difficult to understand and in turn are very heterogeneous. They put all the services together and that does not how it should be" (B2). Interviewees recognized services as a heterogeneous sector, but in spite of this there is no evidence of an intention to institutionally divide their promotion or support. Nominally there is in ProChile a Services Department, but in contrast with goods, this department has to work with the heterogonous service sector as a whole. As one interviewee said, "it is a much dispersed sector, so it is difficult to have an objective, and all efforts are concentrated in small departments" (A2).

Definitely it is complicated to understand services in a world of goods. The reason might be that "policies have always been designed for goods and copied for services, which does not work" (A1). It is more understandable a transaction in goods and to generate the policies around it, but to approach services is a more complex task: "For example, regarding taxes, how to tax a service? It is still very complex, because you have the logic of goods. In the case of tax returns, there is the need to enable customs to understand what is being discussed and to proceed with tax refunds" (A1). This happens in most areas, where "excessive orientation to goods as a result of the large endowments with which Chile has historically counted has tarnished the development of services" (B1).

In a model whose logic of operation and design of public policies is based on indicators such as efficiency and accounting results, it is hard to incorporate a sector that has not been statistically weighted: "a first problem that is detected with the development of the services sector are problems in registering them, which would account for a first great difficulty" (A1). There are no statistics, even at the global level, except for some efforts by the WTO and the OECD, "but they will of course depend on national efforts as well" (A2). For this reason, it is complex to make public policy without statistics in the framework of a model such as the Chilean, which operates with indicators logic, "it is impossible to convince the ministers to do something if you do not explain the profitability and less to the Parliament, not to mention the Treasury" (A2). Also, this becomes a problem for the private sector, where associativity is fundamental: "how do we make our partners understand that we have to submit numbers to the authorities to help us, or vice versa? We have asked the Central Bank many times for support, but it has no interest" (B2). In this respect the role of the Central Bank as collector of data is questioned, beyond those that can handle other public services. In particular, it is criticized not to have made an effort to include new items in the balance of payments to have statistics on the sector. But, "it is something involuntary that they do not support services. Because they do not know what it is, it is very difficult to get into. On the other hand, goods are very simple" (C). Nevertheless, there have been some attempts, "small strategies to develop statistics, but it is probably necessary to get rid of this marked trend of

indicators and to design support programs in areas that are considered potential based on other, less quantitative criteria" (C).

It is interesting to highlight the responses of services exporters or those companies that have not been able to export. They pointed out that their problems are linked to two institutions: National Customs Service (SNA) and Internal Revenue Service (SII), which depend of the Treasury Ministry. Despite this critical look, these interviewees argued that "there are customs problems that are not their responsibility to solve, but to Treasury. Finally, the interests of the SII prevail before the SNA and as there is not enough lobby, they are allowed to protect certain attributes" (B2). When consulted on this subject both the Treasury and the National Customs Service responded that these dependencies only operate within the framework of a law and, in addition, do not have sufficient resources to train and inform their operators or users: "we cannot facilitate more than we have done. The law allows us to only make the tax exemption on mode 2" (A2). The size of the State is also a limitation: "we do not have enough personnel, but it is clear that if it is a priority project of interest for the country, we would have to dispose of them" (A1).

The model has created its own actors, that is to say, a public sector that has lack of creativity and that is not able to establish those areas in which it wants to innovate. As already mentioned it responds permanently to demands and does not venture into the creation of projects. It has not identified them, perhaps for fear of choosing the winners and going against the theory. As one interviewee said, "we are full of barriers to entrepreneurship. The government does not make changes, like stamp taxes. I'm not even suggesting deeper changes" (C). Again, State's neutrality has not demanded professionals thinking about the generation of value added, since "the model has created a political class that does not consider industrial policy" (C). It seems that "Chile is a country of improvisation and little politics" (C).

The size of the Chilean State was not considered adequate for the implementation of any type of industrial policy and, more complex, the evaluation and monitoring thereof. The model has had the clear objective of diminishing the role of the State, whose size and forms of participation are inferior to that of any developed country: "public companies were eliminated and concessions were granted. There could be a larger State, but with the same conviction it would not do either" (C). The objective of this process has been "to dismantle the State. That is why Corfo's status was lowered" (A1).

In addition, for some interviewees Chile is in a complex region regarding the level of trade openness of the country, because where Chilean exports have greater added value are precisely its neighbours: "natural commerce is with whom you share links, history, distance, even colonial ties, so the natural destiny is South America, obviously" (C). This is reinforced by the fact that "SME entrepreneurs cannot go very far, at least at an early stage. It would be logical to go to the countries of the Southern Cone, but the region is very bad as a natural destination" (B2). In the private sector there was a negative perception about trading partners, as in the

case of Argentina, although they are recognized as attractive markets, they are considered to have conditions that make it impossible to invest in them.

In another point, regarding human capital English proficiency had been identified by all diagnoses as essential in the service export process: "we need skilled manpower and we do not speak English. There is a shortage of human capital. With better labour we could create new sectors" (A2). This diagnosis was widely accepted, even among the sectors with the necessary labour force: "how are we going to be service providers, if we do not have the qualification to be one" (B2). In some sectors this has a greater impact. For example, "in tourism we have no possibility without trained human capital" (A2). In addition, there is no determination of what the country needs in the creation of skills, because "vocational training of technical staff is very important in the development of a country. We not only need professions with advanced academic degrees" (A1).

Another great issue that the interviewees perceived was that in Chile there is lack of confidence amongst society. This creates a crisis in associativity and reduces collaboration, which is very detrimental to growth and development. One stake holder mentioned that, "we are not able to believe in the other" (C). The Legatum Prosperity Index is an indicator developed by the Legatum Institute and considers 110 countries in 2014, according to a variety of factors, including wealth, economic growth, personal well-being and quality of life. The conclusion: "collaboration, a fundamental aspect in value aggregation, is at a deficient level in Chile" (Marshall & Rodríguez, 2010).

In their perception, the process of Chile's trade insertion in the world and its prominent role as part of the economic policy strategy could not by itself modify the export basket, but it was expected. Treaties rarely appeared in the interviewees' opinion as an aspect to be addressed, although most FTAs subscribed by Chile have some reference to services, and in no case were identified as a useful exporting instrument. One of them expressed that "the policy of agreements would be the main one, and the sectoral policies, driven mainly from Corfo, more limited, to link public private partnership" (B2).

However, overvaluing trade policy in a country's economic policy may lead to neglecting the internal aspects of this insertion: "trade agreements have not had a sufficiently relevant effect, apart from the opening of markets and double taxation" (B2). And the worst thing is that this conception has disqualified the design of other policies, because "the agreements served in many aspects, especially they gave Chile a kind of international certification as a reliable country. What we must now do is move on to a second stage" (A1).

Public-private partnerships in Chile were not perceived to be developed, and although "there are some initiatives, they are small. There are no such cases of success as was the one of the salmon, for example" (C). It is possible to mention some experiences in the services sector, such as the case of architects, engineers or even some timely export in areas of information technologies, but they do not yet have characteristics that

allow them to be sustainable and successful. Alliances are strengthened within the framework of a subsidiary State model, under a new relationship in which the private sector and the public sector pursue common goals and share the risks. However, it is difficult to conceive of these alliances without some apprehensions, such as the private co-opting the State, or companies committing real resources and risk jointly: "entrepreneurs in Chile always want the capital to be risked by the State" (B2).

The economic aspect has been a priority and has defined most of the State strategies, with a focus primarily on the market and a subsidiary State, which has manifested itself in several of the structural issues that have been revised. That is, "in Chile the economic world has been privileged over the political, which from a technical view has been positive" (A2). As for the budget for the programs, another interviewee stresses that "if an idea does not have the support in money, it does not work. The issue is because there are other (social) spending priorities" (C). The relevance attributed to some ministries is evidence of the weight of the economic view: "the power of Treasury is an indicator that the patterns that define policies are economic" (A2). Thus, economic policy decisions have been centralized in the Treasury Ministry, reducing the force to ministries like Economic, which are somehow called upon to do industrial policy: "the supremacy of the Treasury Ministry against a country project is of high consensus" (A1).

The financial system, despite being a service, does not seem to understand or be willing to support service companies. Services sector to its international insertion needs the financial provision: "there is no access to risk capital. The financial had not developed a logic to work with services, which have no capital, so there is no access to financing" (C). In some cases it was possible to move forward without pretending major changes: "the credit sector has been full of regulations, but none to promote competition" (B2).

Other problem perceived is that in order for the market model to work, it is necessary to have competition: "the level of collusion is evident in many sectors, not only in pharmacies. The difference is that there are those who suggest giving greater power to the National Economic Prosecutor, including jail sentences" (A1). Although competition policy in Chile they clarified is modern compared to the rest of the region, it is insufficient. The fault is obvious, as one expert exposed: "retail is known to use internet platforms for price matching and it is not possible by law to prove collusion" (B2). Competition is essential in the world of services, because the margins are small and they are intensive in human capital, in particular to be an SME to survive.

The exchange rate was identified as a very relevant factor and they highlighted that there had been given little attention to it, not only in terms of services. There is little awareness that the exchange rate reduces competitiveness: "there is a kind of obsession for inflation and excessive Central Bank's power in it. It has had strong consequences on the composition of the export basket and as long as this is not understood, it is impossible to think of a change" (C). The model was very severe in establishing that the exchange rate should

not be transformed into a productive policy, but clearly it is an instrument that has devastated the export basket and its composition: "moreover, if we review its evolution, it has not succeeded in helping non-traditional exports emergence. For services competitiveness is essential to address this issue" (C). In other words, it will never be possible to diversify if we are unable to control the exchange rate problem with coherent strategies.

The pre-eminence of taxes for services export was highlighted as more important than for goods. As noted previously, services are human resource intensive and their earnings depend on income from the payment of human resources. Therefore, when exporters have to pay taxes in both countries it is impossible for them to trade in this sector. This issue is directly related to the problem of ignorance regarding its nature and lack of statistics. Understanding of barriers is very scarce and taxes are identified as a very relevant one. There have been very general ideas, such as creating investment platforms, but the real problem is that "in Chile the service export industry is affected by local taxes" (C). In some cases double taxation agreements were reached, but they have not been sufficient. In other cases, users do not know their scope or existence, and there seems to be no incentive to disseminate these agreements: "given the lack of knowledge of the services, the SII performs its functions strictly and this discourages companies" (B2).

### **Level III: specific policies and instruments**

Finally, at this level, a number of policy considerations and specific instruments and sectors related to services are addressed. The interviewees pointed out that there were some initiatives for the design of programs towards the services sector development, but they emphasized that they clearly did not correspond to a project of greater complexity or even "for each of the subsectors. They were the response to specific needs or individual ideas and budgets" (C). In addition, "there is little money and there is an important dispersion of efforts" (A2). Moreover, there were no vertical policies and "there was never a policy aimed at specific companies that selected winners, but rather more inquisitive cases" (A1).

Although it was possible to perceive an intention in many civil servants who had clarity on the potential of the sector, no changes were made, even in aspects that were sometimes minimal: "there are few or no strategies in the modification of norms or regulations that will help to advance in the conversion. The speeches have not been translated into regulatory changes and much less economic" (B2).

At this level, a number of policies and instruments are analysed. In the process of this research the interviewees were consulted regarding the evaluations that they had on the programs implemented. Neither the private sector nor the public had structures to evaluate these programs, not only as a consequence of the short term measures, but also because of lack of instruments and priorities: "they are such a small amounts, badly

distributed, that no one evaluates them, for what" (A1). As an example, one stakeholder explained that CORFO failed to evaluate a program that was as relevant as the global services cluster. The program was discontinued and funds were redirected. Although there was a possibility of renewing this policy, "the cluster had not been evaluated and that is fundamental to justify its return" (A1).

In all the interviews, references were made to ProChile and CORFO as the entities most closely linked to diversification and service-oriented policies. Opinions were divergent, but they have in common to describe them as institutions with little functionality and with few resources, which support as much as possible, but not in a relevant manner. Furthermore, the multiplicity of institutions oriented to the promotion and support of services exports that do not have any kind of institutionalized coordination becomes an obstacle to the implementation of the support itself. For example, "there is no link between ProChile and CORFO. It is more about a personal relationship than a process of coordination. There is a great disarticulation of institutions like CORFO, ProChile and Sercotec" (A1). They mentioned that there is something similar in the private sector, because "those who make policies do not coordinate, nor do we the chambers on more obvious issues" (B2), and there is an uneven or duplicate distribution of resources. In general, it seems that you have to be close to CORFO, which have more funds, but the truth is that it operates heavily as isolated units. In the responses of the interviewees was clear that the personal relationship and links over ranked institutional communication.

The lack of coordination, the diffuse role of different institutions on the same subject and the lack of success of the implemented programs revealed that there has never been an agent "sufficiently empowered to make policies in this direction" (B2). Service companies are primarily smaller, human-capital-intensive firms, this means that unlike the goods sector -where there are strong incentives and possibilities for partnership- there was no leadership or partnerships with which to dialogue: "not only is there a lack of leadership among the diversity of public institutions; in the private sector as well" (B2).

Regarding ProChile, in some civil servants we found a negative perception of the institution, which was seen as an inoperative entity, with a very marked orientation to goods and has a limited budget and receives little attention. The private sector has a better perception, but always individually, for the support received, but not thinking something will drastically changes its situation.

For a long time ProChile has reacted mainly to a demand logic and not to country strategy policies. It creates programs and allocates budget depending on the requests of the guilds or associations: "the Department of Services does not have the time, or an area that analyses the possibilities of development of any sector. In fact, we have sections and these have already relation with the sectors" (A2). Also, the budget for services is very low: "to a lesser extent, the promotion policies would be within ProChile (Sectorial brands), where services are not a priority, for example, the budgetary differences with the forestry and livestock sector: they receive

ten times more" (A2). This is something to have in mind when you contrast ProChile performance and their scarce resources.

Coordination and liaison with CORFO and other agencies that have similar objectives involve matters of a non-institutional nature: "personal relationships are what make strategies more than cooperation between institutions through established formal channels" (A2). We found in the interviews consensus on the little coordination between the entities and no institutional structure that forces these synergies to occur. One stakeholder explained that in part they respond to the interests of each organization, but fundamentally attributes it to a coordination problem. A successful outcome depends very much on the type of leadership of each institution at a specific time, which responds to a personal. An example was the null contact between ProChile and CORFO during President Piñera government, due to conflict of styles between those who were running them: "there was never as little contact between CORFO and ProChile as during this government" (A2).

Regarding CORFO, it was distinguished as more relevant than ProChile in terms of budgetary advantages for the programs in services. They perceived it as an institution with independence and resources, but strongly influenced by the economic model, and that also underwent through an important process of dismantling. Although CORFO has more budget than ProChile, their programs are very directed to goods although it "would be the institution that could be successful in some diversifying policy. It has more weight than the other" (C).

Finally, respondents were particularly asked about the reasons why the global service cluster did not function. As we mentioned, it meant a turning point in the policy of neutrality that emerged in the first administration of President Bachelet, which was the result of a job commissioned to the Boston Consulting Group (BCG)<sup>7</sup>. In some cases, the stakeholders' responses showed that the problem refers only to the suspension of funds directed to the program. However, they recognized that the structure of the policy allowed it to be dismantled so easily: "it is necessary to think with more long term perspective the policies in productive matters, since the effects are only long term" (A2). So it cannot be thought that in a framework of four-year presidential periods, certain policies continue to be pursued, which also require significant amounts of resources. As one interviewee summarized, "with respect to the cluster initiative, they are long-term processes that should have been allowed to mature, as was trade policy" (C). There are more critical expressions, which consider that "the cluster failed because there was no clarity about what was wanted to propose. The cluster failed because what was raised to attract high technology actually attracted cheap labour rather than modern services" (A1), or that "the cluster failed because there was not enough long-term vision," (A1).

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<sup>7</sup> The government commissioned the Boston Consulting Group to develop a study identifying potential areas to boost growth.

Through the interviews the stakeholder expressed voluntarily some recommendations for a future services export promotion policy that we will present in the next section with the conclusions.

## CONCLUSIONS

This research carried out an analysis of the role of the State in the planning and orientation of development strategies for the sector of exportable services in Chile, in order to understand the relation and the tensions derived from the dichotomy between the manifested aspiration to diversify the export production and the subsistence of a little diversified basket based on raw materials with low added value. In the first section we attempted to demonstrate that trade in services can have a positive impact on development, and that Chile has been aware of this. Chile has made limited efforts to promote exports of services, as discussed above and has failed to promote this sector to diversify the export matrix. The reality is that, beyond the negotiation of free trade agreements, the efforts have been modest and very recent. In order to answer the question, interviews were carried out with a series of stakeholders from the public and private sectors, as well as international, academic and non-governmental organizations. The selection was based on their linkage and knowledge on the subject of services or productive development policies in Chile.

The results obtained in this research arise from the analysis of the perception held by key stakeholders regarding the role that the State had in the development of the service industry after the return to democracy. This was done through the study of the public policies implemented, as well as the promotion programs for the services sector that did not materialize, in order to represent the instruments used, both from the knowledge of its general guidelines and from conceptualization that incorporated in its elaboration. The results of the interviews, allowed the identification of three overlapping levels, in a hierarchy ranging from macro problems to more technical and regulatory aspects

In the first level we grouped the considerations on economic doctrines and business cultures. This point refers us to two reasons: on the one hand, the penetration of a neoliberal model with a conception of subsidiary State embedded in all levels of society. It is a State that has limitedly promoted the service industry as a consequence of the predominance of ideologies or political philosophies that privilege minimal State intervention. On the other hand, is the existence of an entrepreneurial class that has not had the strength or will to modify productive and export pattern.

The second deals with considerations of specificity in the service industry and associated economic aspects. In the first instance, it is indisputable that in the short term services are less profitable with respect to the development of alternatives such as agricultural or mining industry. In a country whose policy perspective is closely related to electoral periods, it is complex to think of implementing strategies whose results would be noticeable over longer periods.



In addition to the above, there is a high ignorance of the services sector and its potentialities, particularly with respect to those of greater complexity, which explains, in some way, the low effort to support this sector. In turn, this lack of understanding can be explained by the following reasons: the recent irruption of services in the commercial world, their coexistence in a world designed and structured for goods, and the methodological difficulty in measuring them.

Given the short-term vision and ignorance regarding the services sector, the situation is exacerbated by the lack of institutional coordination in Chile to address the issue. This absence has meant that the programs are dispersed, have divided resources and have little continuity. CORFO and ProChile do not have institutional structures of coordination and this one is based on the will of people and their good or bad personal relations with others. Likewise, there is a primacy of finance in the decisions of economic policy, under a marked vision of non-intervention in the productive processes. An example illustrates the latter aspect: although the private sector itself has identified the main obstacles in the SII and SNA, obstacles have not been removed.

In this same level, is recognized as a disadvantage the Chilean remoteness and isolation and the small size of its market. In another aspect, the scarcity of skilled labour is diagnosed as one of the obstacles to the development of a sector that is intensive in human capital. Finally, a low impact of openness is identified, a process in which it was almost magically entrusted as an option for services to reach external markets, in addition to the absence of a public-private action system. Amongst economic considerations, the policy of no exchange rate intervention was another pillar of the model's severity, coupled with the volatility that has historically affected companies to reach third markets. The tax structure has also been an impediment, in particular due to double taxation.

The last level reviews specific service-oriented policy, instrument and sectoral considerations. ProChile and CORFO are the object of deep criticism, which in many cases are linked to the foreground analysed, that is, those associated with economic doctrine and business culture. ProChile has an area dedicated to services with a very low budget - on average, one million dollars annually - and that arises only in 2006. Amongst these programs, the Cluster of Global Services was the most representative, but in conjunction with the rest of the initiatives has not managed to modify the panorama in a relevant way. This program ended with the change of government between President Michelle Bachelet and President Sebastián Piñera, and its end shows the short-term policy design and the little capacity for self-criticism.

Since the end of the field work, some new policies had been implemented in the country. In July 2015, the Public-Private Technical Committee was created. The mission is to identify, analyse and evaluate and analyse and evaluate the measures implementation that promote services exports, to ratify that they are feasible in the context of the regulations and norms and the budgetary restrictions. Chileservicios.com is a new electronic

platform containing all information needed related to service export, mechanisms of support and promotion, that helps exporters to export services. The National Customs Services has a new services classification valid from June 2016, to make easier to apply the benefits to service exporters, fundamental to implement other programs as the reimbursing the imported raw material in to services exports according to Law No 18708/88.

The Committee of Ministers of the Economic Area, composed by the Finance Ministry and the Ministry of Economy, Development and Tourism, announced in March 2016 a package of 22 measures to boost productivity and increase the economic growth capacity. The initiatives were focused on three areas: financing of new initiatives, agenda for promotion and expand the definition of service to include them in the 0% VAT benefit when exporting. Recently, the vice minister of treasury, Alejandro Micco, acknowledges that if the country could not boost their exports on services it will impossible to have higher growth rates. “Chile should be in the services engine. This is what we expect” (Micco, 2016). The current Ministry of Treasury, Rodrigo Valdés, listed three commitments: create a public-private working group in services; revision of the regulatory and procedures in tax and customs aspects related to services exports; and to develop an analysis of the private or public financial mechanisms for the sector (Valdés, 2016).

Finally, there are a number of recommendations that are presented below, which address aspects ranging from macro to micro:

- It is recognized that the model has penetrated the different social strata and that the size of the State makes it impossible to generate aggressive industrial policies that can cause deep disagreements. For this reason, promoting and guiding small enterprises requires a lot of resources and it is more difficult to internationalize them, so it is possible to condition the aid to large companies with the condition that they work with the small ones.
- The Government must create strategies and intervene. The debate is whether this should be done with vertical promotion policies or not. For some interviewees, with great guidelines would be sufficient and this would not have to attack the model. For others, the intervention should directly encourage the creation of new sectors or the development of services that contribute in the areas where there are comparative advantages, in the Chilean case of natural resources. If the State does not choose winners, sectors would not develop.
- In order to move towards better models of services development policies, there is a need to raise greater ambitions. There must be a law that defines the modification of the basket as a priority and that determines a coordinated institutions, with the necessary resources. ProChile should be part of the Ministry of Economy and respond to an internal industry development plan, not only to demand. ProChile also needs to be empowered to eliminate some systemic failures, as well as to develop

business capacity and design international marketing strategies. Inter-agency coordination should be improved.

- International certifications should be encouraged and disseminated so that service providers can understand and use them.
- The financial sector must raise its understanding of services of greater complexity, so that there are incentives for entrepreneurship.
- Public-private partnership is urgent for the country development, structured in such a way that there are shared risks and in areas of national interest.
- Tourism services should be encouraged and a definition of the type of tourism that the country aspires to position in the world can be given, as well as a boost to the human capital needed to promote this activity.

Finally, this paper proposes new topics for research with respect to those already established in the service literature:

- How you establish development promotion policies with a long-term conception, as the alternative to be able to modify the country's export and production matrix?
- Analyse each of the sectors with greater depth and relevance for the country.
- Detect the country's regional opportunities and potential in services, as well as the effects of its integration into regional linkages in this area.
- The study of possible public-private partnerships.

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## ANNEXES

### Annex I Chile's Trade Agreements

| Country              | Agreement Type                     | Entry into force | Country             | Agreement Type                     | Entry into force |
|----------------------|------------------------------------|------------------|---------------------|------------------------------------|------------------|
| Australia            | Free Trade Agreement               | 6 March 2009     | Japan               | Economic Association Agreement     | 3 September 2007 |
| Bolivia              | Economic Complementation Agreement | 6 April 1993     | Malaysia            | Free Trade Agreement               | 25 February 2012 |
| Canada               | Free Trade Agreement               | 5 July 1997      | MERCOSUR (1)        | Economic Complementation Agreement | 1 October 1996   |
| China                | Free Trade Agreement               | 1 October 2006   | Mexico              | Free Trade Agreement               | 31 July 1999     |
| Colombia             | Free Trade Agreement               | 8 May 2009       | P4 (4)              | Economic Association Agreement     | 8 November 2006  |
| South Korea          | Free Trade Agreement               | 2 April 2004     | Panama              | Free Trade Agreement               | 7 March 2008     |
| Cuba                 | Economic Complementation Agreement | 27 June 2008     | Peru                | Economic Complementation Agreement | 1 March 2009     |
| Ecuador              | Economic Complementation Agreement | 25 January 2010  | Turkey              | Free Trade Agreement               | 1 March 2011     |
| EFTA (3)             | Free Trade Agreement               | 1 December 2004  | European Union (2)  | Economic Complementation Agreement | 1 February 2003  |
| United States        | Free Trade Agreement               | 1 January 2004   | Venezuela           | Economic Complementation Agreement | 1 July 1993      |
| Hong Kong SAR        | Free Trade Agreement               | 9 October 2014   | Central America (7) | Free Trade Agreement               | 14 February 2002 |
| India                | Partial Agreement                  | 17 August 2007   | Vietnam             | Free Trade Agreement               | 1 January 2014   |
| Pacific Alliance (6) | Commercial Protocol                | 1 May 2016       | Thailand            | Free Trade Agreement               | 25 November 2015 |

- **(1) Mercosur:** Argentina, Paraguay, Venezuela, Brazil and Uruguay. Chile participates as an associated country.
- **(2) European Union:** Germany, Austria, Belgium, Bulgaria, Cyprus, Croatia, Denmark, Slovakia, Slovenia, Spain, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, United Kingdom, Czech Republic, Rumania, Sweden.
- **(3) EFTA:** Iceland, Liechtenstein, Norway and Switzerland.
- **(4) P4:** Chile, New Zealand, Singapore y Brunei Darussalam.
- **(5) Transpacific Partnership:** Australia, Brunei Darussalam, Canada, Chile, United States, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and Japan.
- **(6) Pacific Alliance:** Chile, Colombia, Mexico and Peru.
- **(7) Central America:** Costa Rica, El Salvador, Guatemala, Honduras y Nicaragua.

Source: Direcon (2017)

## Annex II Investment Promotion Protection Agreements (IPPAs)

| Agreement partners   | Subscription Date                 | Entry into force  | Agreement partners | Subscription Date | Entry into force  |
|----------------------|-----------------------------------|-------------------|--------------------|-------------------|-------------------|
| Germany              | 14 April 1997                     | 17 November 2000  | Iceland            | 26 June 2003      | 16 May 2006       |
| Argentina            | 02 August 1991                    | 27 February 1995  | Italia             | 08 March 1993     | 23 June 1995      |
| Australia            | 09 July 1996                      | 18 November 1999  | Lebanon            | 13 October 1999   | n.d.              |
| Austria              | 08 September 1997                 | 18 June 1999      | Malaysia           | 11 November 1992  | 04 August 1995    |
| Belgium              | 15 July 1992                      | 05 August 1999    | Nicaragua          | 08 November 1996  | 10 December 2001  |
| Bolivia              | 22 September 1994                 | 21 July 1999      | Norway             | 01 June 1993      | 04 November 1994  |
| Brazil               | 22 March 1994<br>24 November 2015 | n.d.              | New Zealand        | 22 July 1999      | n.d.              |
| China                | 23 March 1994                     | 14 October 1995   | Netherlands        | 30 November 1998  | n.d.              |
| Colombia             | 22 January 2000                   | n.d.              | Panama             | 08 November 1996  | 21 December 1999  |
| South Korea          | 06 September 1996                 | 18 November 1991  | Paraguay           | 07 August 1995    | 21 December 1999  |
| Costa Rica           | 11 July 1996                      | 08 July 2000      | Peru               | 02 February 2000  | 11 August 2001    |
| Croatia              | 28 November 1994                  | 31 July 1996      | Poland             | 05 July 1995      | 22 September 2000 |
| Cuba                 | 10 January 1996                   | 30 September 2000 | Portugal           | 28 April 1995     | 22 September 2000 |
| Denmark              | 28 May 1993                       | 30 November 1995  | United Kingdom     | 24 April 1995     | 23 June 1997      |
| Ecuador              | 27 October 1993                   | 21 February 1996  | Czech Republic     | 24 April 1995     | 02 December 1996  |
| Egypt                | 05 August 1999                    | n.d.              | Dominican Republic | 28 November 2000  | n.d.              |
| El Salvador          | 08 November 1996                  | 18 November 1991  | Romania            | 04 July 1995      | 27 August 1997    |
| Spain                | 02 October 1991                   | 27 April 1994     | South Africa       | 12 November 1998  | n.d.              |
| Philippines          | 20 November 1995                  | 06 November 1997  | Sweden             | 24 May 1993       | 13 February 1996  |
| Finland              | 27 May 1993                       | 14 June 1996      | Switzerland        | 24 September 1999 | 22 August 2002    |
| France               | 14 July 1992                      | 05 December 1994  | Tunisia            | 23 October 1998   | n.d.              |
| Greece               | 10 July 1996                      | 07 March 2003     | Turkey             | 21 August 1998    | n.d.              |
| Guatemala            | 08 November 1996                  | 10 December 2001  | Ukraine            | 30 October 1995   | 29 August 1997    |
| Honduras             | 11 November 1996                  | 10 January 2002   | Uruguay            | 25 March 2010     | 18 March 2012     |
| Hong Kong, China SAR | 18 November 2016                  | n.d.              | Venezuela          | 01 April 1993     | 17 May 1994       |
| Hungary              | 10 March 1997                     | n.d.              | Vietnam            | 16 September 1999 | n.d.              |
| Indonesia            | 07 April 1999                     | n.d.              |                    |                   |                   |

Source: UNCTAD (2017)



## Annex III Sectoral Brands supported by ProChile in services.

### Sectoral Brands



**Partners:** 21 Superior Education Institutions  
**Year:** 2014-current  
**Market:** China, Europa, United States and Brazil



**Partners:** Association of Film and Television Producers  
**Year:** 2009- current  
**Market:** Latin America, United States and Europe



**Partners:** Gastronomic Association of Chile.  
**Year:** 2011



**Partners:** Association of Offices of Architects -AOA  
**Market:** China-Latin American  
**Year:** 2009–2014



**Partners:** Chilean Association of Biotechnology Companies  
**Country:** United States  
**Year:** 2010-current



**Partners:** Association of Consulting Engineering Companies of Chile A.G.  
**Country:** Canada



**Partners:** Chilean Association of Information Technology Companies  
**Country:** United States  
**Year:** 2010-current



**Partners:** Corporative Development Corporation of Capital Goods, Asexma Chile A.G. ; Minnovex A.G.  
**Market:** The entire value chain of the item



**Partners:** Wine Association of Chile  
**Year:** 2009-  
**Market:** United States of America



**Partners:** Association of Advertising Film Producers (APCP)  
**Year:** 2013-  
**Market:** United States and Europe

Source: ProChile

#### Annex IV Main activities of the outsourcing services cluster 2008 -2009

| Scope                      | Main results [2008-2009]  |
|----------------------------|---|
| International Promotion    | <ul style="list-style-type: none"> <li>• Country promotion campaign on global services in the US market.</li> <li>• Public-private presence at major global service events in the US, Europe and India.</li> <li>• Project search: expert consulting for US and India markets.</li> <li>• Meetings 1 to 1: Visits to more than 80 of the leading multinational companies and service providers in the US, Europe and India.</li> <li>• Presence in international markets through the offices of InvestChile in New York, Los Angeles, Madrid and Delhi.</li> </ul>  |
| Human Capital              | <ul style="list-style-type: none"> <li>• Extension of the National Registry of CORFO English in more than 41,000 people.</li> <li>• Implementation of the English Training Program for Professionals and Technicians of IT careers.</li> <li>• More than 3,000 scholarships awarded and coverage in all regional capitals.</li> <li>• Plan for the diffusion of technological careers and job opportunities offered by the sector, focused on young people of secondary education.</li> <li>• Line of credit for IT careers with CORFO guarantee, with availability for more than 1,500 credits for technical careers.</li> <li>• Execution of two labour fairs for IT professionals</li> </ul> |
| Local Industry Development | <ul style="list-style-type: none"> <li>• Internationalization of Chilean companies. ACTI Global Services Platform in the US.</li> <li>• Implementation of the 3 projects of Image Country in the following areas: Information Technologies (USA), Contemporary Chilean Architecture (Beijing, China) and Audio-visual Industry (USA and Europe).</li> </ul>   |
| Regulations                | <ul style="list-style-type: none"> <li>• Proposed Draft Law on the Protection of Personal Data</li> <li>• Qualification process of global services export centres</li> <li>• Facilitation of the visa process for ISG professionals.</li> </ul>   |

#### Annex IV Double Taxation Agreements

| Country        | Entry in to force | Country        | Entry in to force |
|----------------|-------------------|----------------|-------------------|
| Australia      | 2013              | Mexico         | 1999              |
| Belgium        | 2010              | Norway         | 2003              |
| Argentina      | 2016              | China          | 2017              |
| Italy          | 2017              | Japan          | 2016              |
| Brazil         | 2003              | New Zealand    | 2006              |
| Canada         | 1999              | Paraguay       | 2008              |
| Colombia       | 2009              | Peru           | 2003              |
| South Korea    | 2003              | Poland         | 2003              |
| Croatia        | 2004              | Portugal       | 2008              |
| Denmark        | 2004              | United Kingdom | 2004              |
| Ecuador        | 2003              | Russia         | 2012              |
| Spain          | 2003              | Sweden         | 2005              |
| France         | 2006              | Switzerland    | 2010              |
| Ireland        | 2008              | Thailand       | 2010              |
| Malaysia       | 2008              | South Africa   | 2016              |
| Czech Republic | 2012              | Austria        | 2012              |

Source: SII (2017)